

VZCZCXRO1158
RR RUEHDE
DE RUEHCV #2431 2272121
ZNR UUUUU ZZH
R 152121Z AUG 06
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 5869
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0681
RUEHBO/AMEMBASSY BOGOTA 6909
RUEHBR/AMEMBASSY BRASILIA 5716
RUEHBU/AMEMBASSY BUENOS AIRES 1409
RUEHLP/AMEMBASSY LA PAZ 2276
RUEHPE/AMEMBASSY LIMA 0521
RUEHSP/AMEMBASSY PORT OF SPAIN 3233
RUEHQT/AMEMBASSY QUITO 2361
RUEHSG/AMEMBASSY SANTIAGO 3715
RUEHDG/AMEMBASSY SANTO DOMINGO 0298
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0449
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

UNCLAS CARACAS 002431

SIPDIS

SIPDIS

ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [VE](#)

SUBJECT: CITGO SELLS LYONDELL REFINERY

This message is sensitive but unclassified, please treat accordingly.

11. (U) SUMMARY: Energy Minister Rafael Ramirez announced that PDVSA's wholly owned U.S. subsidiary Citgo was selling its interest in Houston's Lyondell-Citgo Refinery to partner Lyondell Chemical Company. The sale comes as no surprise and is the result of a long running dispute between the two partners. PDVSA expects to clear 1.3 billion USD from the sale. The deal also includes a five year supply contract that supersedes previous contracts. END SUMMARY

LONG AWAITED SALE FINALLY HAPPENS

12. (U) Energy Minister Rafael Ramirez announced on August 15 that Citgo has agreed to sell its 41.25 percent interest in the Lyondell-Citgo Refinery to its partner Lyondell Chemical Company, which has a 58.75 percent stake in the refinery. The refinery, which refines heavy, high-sulfur crude oil, is located in Houston, Texas and has a capacity of 268,000 barrels per day. According to the Venezuelan press, PDVSA expects to clear 1.3 billion dollars from the deal after taxes and relevant charges. The profits will be placed in the National Economic Development Fund (Fondo Nacional de Desarrollo Economico or Fonden). The deal also includes a five year supply contract that supersedes previous contracts.

13. (U) The sale is the direct result of a long running feud between Lyondell and PDVSA/Citgo. Under two contracts signed in 1993, Lyondell agreed to invest over 1.1 billion USD in the refinery so that it could refine heavy, high-sulfur crude oil. Citgo agreed to contribute to the upgrading of the refinery and purchase the bulk of its products. PDVSA committed to supply 230,000 barrels of oil per day for 25 years. During the period of April 1998 to September 2000, PDVSA declared force majeure citing OPEC quota cuts and reduced its deliveries. PDVSA restored deliveries but cut

them again in January 2002 on the same grounds. Lyondell sued PDVSA but the suit was dismissed after Citgo agreed to sell its stake in the refinery. On July 20, 2006 Lyondell announced that the parties had received offers of over 5 billion USD for the refinery but decided not to sell out to a third party because the offers did not "overcome the significant benefit of retaining an ownership position".

COMMENT

14. (SBU) The refinery's sale does not come as any surprise.

The sales price also seems to be reasonable given the previous offers of around 5 billion USD for the entire refinery. Although Citgo is still trying to sell its two U.S. asphalt refineries, we have not seen any indications at present that the BRV and PDVSA are seriously trying to sell Citgo. Given the substantial profits that it is generating as well as the fact that it is the ideal platform for the BRV's subsidized heating oil/propaganda program, we do not expect the BRV to change its stance on Citgo in the near future.

WHITAKER